

restore our property rights
strengthen independent
regulators reform bureaucracy
rationalise taxation create a
common market lift foreign
equity restrictions
local governments fiscal
Reforms 2.0
Why we need them now
responsibility reduce trade
barriers more economic
freedom privatise public sector
units implement police
reforms eliminate entitlements

army among AFSPA accountability
Council Afghanistan **agreement** bilateral approach
Act agenda Committee areas Ambedkar's
case **Committee** Ambedkar
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Pragati

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We need Reforms 2.0

The urgent need for minimum government,
maximum governance

public policy

The exposure of a series of high profile scandals in recent weeks is the clearest reminder yet that Indian governance has fallen so far behind the Indian economy that there is a serious risk that it will extinguish prospects of the nation's development. It will also undermine India's geopolitical influence.

A growing India therefore faces a faster-growing governance gap, causing our problems to scale faster than the attempted solutions. This is so because the first generation economic reforms—launched by the P V Narasimha Rao government and extended by the Atal Behari Vajpayee government—have run their course. All the low-hanging fruit have been picked. The nearly double-digit economic growth that we are experiencing today are the rewards of good policies of the previous decade. Unless India acts now to liberalise its economy, we will be punished for the follies of the current, wasted decade.

Ahead of Barack Obama's trip last month, Lawrence Summers, a senior White House economic advisor, praised India's people-centric, consumption-driven model as the "Mumbai consensus", worthy of emulation. Yet much of the Indian economy is captured in a Delhi straitjacket. At a time when rising wages in China is opening up opportunities in the manufacturing sector in other lower-wage countries, India's labour market remains as inflexible as it was. At a time when funds are flowing into emerging economies, the Indian government could channel it into "good"

NITIN PAI

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investment by opening up more sectors to foreign direct investment. These are historic opportunities. But neither the UPA government nor the opposition BJP show any interest in exploiting them.

Unless the Delhi straitjacket is unlocked, corruption scandals are bound to recur.

Today few even remember the phrase “second generation reforms”. These were eagerly awaited in 2004, when Dr Manmohan Singh became prime minister. The political establishment now appears to be in thrall of the UPA government’s economics of entitlement—subsidies and wasteful expenditure on a gargantuan scale. As Niranjan Rajadhyaksha, managing editor of *Mint*, notes “government expenditure has likely overshot its budgeted level by at least ₹1.13 trillion so far this fiscal. This is more than the ₹1 trillion the government collected from the wildly successful auction of spectrum for 3G telecom services. It was a windfall that the government has frittered away, a fact that has been buried under the avalanche of reports on various scams. The money raised through the 3G auctions should ideally have been spent on national projects that would provide long-term benefits, be it linking our rivers, funding new schools or promoting green communities, to give a few examples. It has unfortunately been used to oil the political gravy train.”

Another astute observer of Indian politics, Shekhar Gupta of the *Indian Express*, points out that “(over) the past few years, almost all scandals have involved misuse...of discretionary powers by the government, either for old-fashioned rent-seeking, or its new child, crony-capitalism.” But while there is a natural and necessary clamour for punishing corrupt politicians and government officials, public discourse fails to get down to the root of the matter—that unless the Delhi straitjacket

is dismantled, corruption scandals will recur.

That is why Reform 2.0—minimum government, maximum governance—is necessary. Property rights, labour regulations, investment regulations, education, agriculture and domestic trade must be liberalised. There is case for placing the management and allocation of national resources like minerals, hydrocarbons and radio spectrum under independent agencies. The damage to the independence and credibility of institutions under the UPA government has been immense. This has to be reversed. If the list of areas in need of urgent reform is long it is because they have been pending for over a decade now.

For geopolitical clout too

Despite the global economic crisis and the eastward shift of the world's geopolitical centre of gravity, external environment is favourably disposed towards us. Save a few exceptions, almost every country in the world—big and small—sees India's emergence in positive light. This was palpable in the overwhelming support India received for its bid for a non-permanent seat at the UN Security Council. The countries that voted for India didn't do so because they subscribe to India's values or are admirers of our civilisational culture and democratic traditions. It happened because they see potential benefits for themselves in India's growth process.

Indeed, it is undeniable that post-1991 economic growth is the real basis of India's foreign policy achievements in the years since. More reforms, for instance, will give New Delhi better leverage with Pakistan's international sponsors. More reforms will allow India to reduce the relative differences in national power vis-a-vis China. Whether it is in East Asia or at the G-20, India's geopolitical influence depends on its economic performance—not merely in headline GDP growth rates, but in the quality of that growth.

India is on the verge of a virtuous cycle wherein the external environment creates opportunities for internal development, and this in turn shapes world affairs in our favour. Without Reform 2.0, this cycle could easily stop, or worse, go into reverse. ■

Where are the second-generation reforms?

The unfinished economic agenda could be a political winner

public policy

There is a celebratory air in India these days, and not just because of the festive season. As Barack Obama's visit made eminently clear, India has arrived, at any rate as a destination for American business, if not yet as a geopolitical great power. That, too, may obtain, if we sustain our current pace of economic development. With the growth rate ticking close to double digits, second only to China, and even *The Economist* newspaper, ever the naysayer, now suggesting that the Indian growth rate could overtake the Chinese, there is a justified sense of satisfaction that India's gradualist track toward economic reform is beginning to bear fruit. So is it time to pop the champagne corks? Perhaps, not just yet.

A quick recap of history: The initial impetus to the first phase of reform, back in 1991, was a foreign exchange crisis, induced by the First Gulf War and the sharp increase in the price of oil that followed. In a story that has now become famous, Indian leaders at the time, not particularly popular politically, decided that a piecemeal approach to stave off the crisis was not enough, but that what was required was a thorough liberalisation and opening up of the economy. In a bold move that required a look toward the long view, rather than short-term electoral gain, the government, at one fell swoop, virtually eliminated the "License Raj". It also lowered trade barriers and liberalised the foreign direct investment regime, amongst other key elements of the reform package. It was, indeed, these first generation

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economic reforms which ushered in the period of rapid economic growth and development that has made India the success story it currently is.

Following the initial reforms, there was a lull, as we were ruled by a series of unstable coalition governments with the Left parties playing a prominent role. They did not then, nor do they now, have any appetite for liberal economic policies. At least, they did not reverse course. The next phase of a muscular and purposeful pursuit of systematic reform came during the BJP-led National Democratic Alliance (NDA) government, starting in the late 1990s and carrying into the new millennium, in which the case for further reform was prodded and pushed by key figures such as Jaswant Singh and Yashwant Sinha.

Congress's electoral interests inveigh against further reforms. Not so for the BJP.

Indeed, one could well argue that the current Congress-led government is reaping a harvest, the seeds of which were sown by the BJP-led government it ousted in the 2004 general elections. They have been good managers, and have delivered reasonably sound fiscal and monetary policy, that saw India weather the worst of the global financial crisis of three years ago. One should not minimise that accomplishment. However, this does not gainsay the fact that the two most recent Congress-led governments, UPA 1, which ruled from 2004 to 2009, and UPA 2, in power from 2009 to the present, have been unable to carry forward the agenda of next generation economic reforms.

What must be stressed is the necessity of completing the reform agenda. All of the low-hanging fruit have been plucked. Now it is high time to deal with vitally important areas such as labour law reform, privatisation of public sector units (PSUs), elimination of agricultural subsidies, opening up retail and insurance to foreign investment, and the dismantling of what remains of the industrial licensing regime, especially reservation for the small-scale sector. We cannot sustain our high growth rate and cement our economic transformation without this next phase of reforms.

Some may ask, if reform is so vital, how is it that we are growing almost at double digits? Here, I would echo the view of astute observers, such as Arvind Panagariya, who have rightly argued that the current boom in the Indian economy is entirely driven by the dynamic private sector, the high savings rate (almost a third of GDP) which drives investment, and the large domestic market, which gives economic growth a certain momentum of its own. But, it must be underlined that without further reforms, rapid growth in itself will not accomplish the required structural transformation of the economy, and, indeed, may not be sustainable in the long run.

Regrettably, rather than getting on with the job, the current government has been content to pursue an uncontroversial and innocuous agenda, focusing on politically safe issues that no one could argue with, such as improving India's infrastructure, which is bursting at the seams, things like airports, ports, bridges, highways, and the like, and all of this under the mantra of our time, public-private partnership. Anyone who has recently flown through Delhi's impressive new airport terminal will agree that this is working well.

But there is much more to ensuring sustainable growth and development than building airports and highways, important though they are. The crux is this: India's current economic success rests on slender and fragile foundations, which are missing one key ingredient: a large, labour-intensive manufacturing sector. No major economy in history has ever gotten rich without this. India is still a largely agrarian society, excessively dependent on relatively unproductive agriculture. This is attested to by the striking fact that, despite all of our progress in the modern economy, the single largest determinant of year-to-year variations in GDP growth is still variation in rainfall. The bottom line is that hundreds of millions of young people are going to need to move out of the countryside and into the cities in the coming decades, and this will only happen without creating major social unrest if there are manufacturing sector jobs waiting for them. Otherwise, our much vaunted "demographic dividend" will turn into a nightmare instead.

The notion that we can defy this iron law and get rich instead by focusing on high-tech services is a dangerous delusion. A large, export-oriented, labour-intensive manufacturing sector was the driver of growth in East Asia and is the formula for China's success. We must emulate this model. Yet, the critical failure to liberalise and rationalise labour laws in India (most notably the notorious Industrial Disputes Act, 1947) is without doubt

the principal reason why manufacturing has not taken off, and is not likely to, anytime soon. After all, if you cannot fire workers, why would you hire them in the first place?

Take another contentious area: privatisation of PSUs. When UPA 1 came to power in 2004, they effectively froze the disinvestment part of the reform agenda. Now, under UPA 2, there have been only very tentative steps toward renewing this process, and certainly no wholehearted embrace. Rather, the divestment that is taking place, such as the recent public offering in Coal India Limited, is fiscally driven, by the need to raise more cash for the exchequer, and does not demonstrate a commitment to reform this highly inefficient sector, with its arcane system of notified prices and consequent rationing. A secure energy supply is integral to the development of manufacturing, but the much needed restructuring and liberalisation of the power sector in general, and of electricity-generating capacity in particular, has also gone begging.

So what is going on? When the Congress party in UPA 1 freed itself from reliance on the Left in late 2008, over the wedge issue of the civil nuclear deal with the United States, and then trounced them, as well as the BJP, in the 2009 general elections, they came back to power with a bigger majority, reincarnated as UPA 2, without the need to rely on leftist allies. Yet, reforms are not even remotely on its agenda. Most pundits predicted the opposite. A few prescient commentators, such as Shankar Acharya and Arvind Panagariya, got it right, and recognized as early as 2004 the lack of commitment to economic reform not only within UPA 1 but critically within the Congress itself. That is the reason that UPA 2 has not pursued reform: it has not been embraced by Congress itself.

Arguing that they could not reform in UPA 1 due to reliance on the Left has now been revealed as the hollow excuse it always was. As another astute analyst, Ashutosh Varshney, wrote in 2006: “Congress party strategists have independently come to the conclusion that the party’s social base requires a programmatic focus on the lower and middle echelons of society.” In other words, the party’s own electoral interests inveigh against aggressively pursuing further reforms, as the presumed beneficiaries are the urban middle classes, mostly upper-caste Hindus, who predominantly vote for the BJP.

The more thoughtful, and candid, members of the current government admit as much. Jairam Ramesh has said on numerous occasions that a vigorous pursuit of further reform requires what he aptly terms a “politically durable consensus”, which evidently is lacking within

Congress. In terms of electoral calculus, he could be right. The Congress’s short- and medium-term political interests may well be harmed by re-igniting the reform process. It is a safer bet to squeeze slightly higher growth out of the cogs of the exiting system, and coast along for the next few years.

In the long run, this would be a mistake of cataclysmic proportions. Surely the time is now, with the economy booming and a general election still almost four years away, to grasp the nettle and get on with the job. The failure to do so reflects an “original sin” of the first phase reforms in 1991. They were undertaken in an *ambiente* of crisis, and the case for reform was never properly articulated by Congress. That original sin has now come back to haunt them.

On the other side of the aisle, now would be the time for the BJP to shelve its Hindutva agenda, which is not a vote-winner in any case, and once again put the economy at the top of its political manifesto. That formula worked fabulously for them when they were last in power, and it can work again. While political parties have to be opportunistic to some extent, they also need to stand firm on principle, if they are to remain credible. Unfortunately, on furthering the economic reform agenda that they themselves did so much to strengthen, the BJP strayed too far from principle, and are pursuing electoral gains that thus far have proved illusory.

There is truth in the old parliamentary adage that where you stand depends on where you sit, but this should not be applied to a principled defence of economic reform, which was, and could once again be, at the core of the BJP’s platform. The BJP, quite simply, needs to move beyond its election defeat in 2004, in which it was out-strategised by Congress. The 2009 election defeat was merely a footnote. It must build a new manifesto for 2014 which makes clear that economic development is not just for the urban middle and upper classes, who are already beneficiaries, but for everyone. That could be a winning ticket.

A reinvigorated BJP, committed to completing the reform agenda, may also have the salutary effect of inducing Congress to be a little less smug and complacent about their re-election chances, and get them to focus seriously on the economy again. Doing so will require that they vanquish the old Nehruvian socialists still in their midst. That way, when the next election comes around, Indians will have the choice to vote for a party—either one—which actually believes in economic reform, and then gets on with the job. We should keep the champagne on ice until that happens. ■

Why the Right must embrace Ambedkar

Constitutionalism is the modern day dharma



Photo: Arti Sandhu

SHASHI SHEKHAR

Ramachandra Guha recently labelled Arundhati Roy the Arun Shourie of the Right. On the face of it the comparison appears far fetched. Ms Roy, known primarily for her obstructionist activism and loud commentary, can at best be described as an intellectual anarchist having never held any position of responsibility. Mr Shourie, on the other hand, is not only known for his stewardship of a leading newspaper but was widely praised for his foresight, acumen and probity in managing the Vajpayee government's privatisation programme.

Nevertheless, in at least one aspect, Ms Roy and Mr Shourie do appear to share some commonality. Through their rather opportunistic interpretation of Ambedkar, they have both, unfortunately, attempted to provide intellectual cover to acts of constitutional immorality committed by both the political Left and the political Right.

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In her endorsement of *Bhimayana – Experiences of Untouchability*, a new book on Ambedkar, Ms Roy has described him as India's most important thinker and has argued that his influence on India's polity has been deliberately downplayed. On similar lines, she had also invoked Ambedkar's vision in a recent essay offering a rather blatant defence of Maoist terrorism.

Despite her constant celebration of Ambedkar, Ms Roy has shown little faith in his constitutionalism. Ms Roy's obstructionist activism is a constant reminder of what Ambedkar had condemned as the "Grammar of Anarchy" in his closing speech to the Constituent Assembly. If democracy is to be maintained in form as well as spirit, he had argued, then all unconstitutional means must be abandoned once the Constitution came into force. It is ironic that Ms Roy cites Ambedkar to defend those who not only show scant regard for constitutional morality but seek to overthrow the republic that is built on that Constitution.

Radicals like Arundhati Roy are not the only ones who stand out for showing little faith in Constitutional institutions. The edifice of Nehruvian socialism and much of the Congress party's dynastic politics rests on a similar lack of conviction. The Congress and its leadership bear the ignominy of having scripted some of the most worst acts of constitutional immorality.

If the deliberate obfuscation of constitutional morality has given the extreme Left intellectual cover, it also strengthened the dynastic centre-left's vice-like grip on levers of power. Unfortunately, the BJP also embraced this culture of constitutional permissiveness, reaching its nadir in the demolition of the Babri Masjid in 1992. In fact, the Indian Right has been timid and unimaginative in its embrace of Ambedkar. It may pay lip service to him as an icon but has offered little respect to his constitutionalism and unshakeable faith in due process and rule of law. There is much in Ambedkar's constitutionalism to support a coherent centre-right agenda, if close attention is paid to his interventions in the Constituent Assembly debates and to his writings.

First, his strong defence of the republic in the Constituent Assembly that is reminiscent of Kautilya. Ambedkar was a student of Kautilya's *Arthashastra*, to which he refers to in his book *Who were the Sudras?* Second, he strongly repudiated arguments that insisted that the Constitution explicitly declare India a socialist state. Third, Ambedkar's remarks cautioning against the mindset of victimhood perpetuating itself within the religious minorities are a strong rejection of present day

vote bank politics. Finally, his vision of an India where "the Majority ceases to discriminate against the Minority thus giving no ground for the Minority mindset to exist" puts him firmly on the side of political Right in India.

Unfortunately, the Indian Right and its leading intellectual figures, in particular Mr Shourie, have focused on the more controversial aspects of Ambedkar's discourse. Mr Shourie's criticism of Ambedkar stems largely from his remarks made by him in the parliament as the Law Minister in Nehru's cabinet, on the unsuitability of the Constitution for India. Mr Shourie then goes on to construct a narrative of Ambedkar focused almost exclusively on the frustration in the latter's twilight years, framing him as a British acolyte with questionable contribution to the Constitution. Some of Ambedkar's writing from the pre-independence era with support for two-nation theory lends credence to Mr Shourie's case.

Ambedkarite constitution-alism can be an effective antidote to the statist policies that are in vogue.

While deification of any political leader is ultimately counterproductive, focusing exclusively on negative aspects of a complex political personality is also misleading. Mr Shourie's deconstruction of Ambedkar merely reinforced negative stereotypes of the Indian Right while doing little to further the intellectual discourse beyond Hindutva. In an effort to demolish Ambedkar, Mr Shourie has tended to ignore the fundamentally more complex thought process underlying some of Ambedkar's views. For instance, even his purported support of Pakistan was based on his scathing criticism of literal interpretations of Islamist doctrine and remains relevant to this day.

A reappraisal of Ambedkar's constitutionalism can help fill the ideological vacuum in the broad space on the right of centre. As L K Advani himself recognised during years the BJP was in power in New Delhi, Hindutva had nothing to do with most areas of governance. The lip service to Integral Humanism notwithstanding, it

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foreign policy

A crown of thorns

It's too early for India to sit at the UNSC



Photo: Yang & Yun

SUSHANT K SINGH

These were the words, it seems, that most Indians were eagerly waiting to hear when US President Barack Obama addressed the joint session of the Indian parliament: “I can say today—in the years ahead, I look forward to a reformed UN Security Council that includes India as a permanent member.” His somewhat guarded announcement of support for a permanent seat for India in the United Nations Security Council (UNSC) was lapped up by Indian commentators. But it also attracted a lot of media attention internationally. Most foreign analysts emphasise that this announcement will not mean anything substantive for India, as the Security Council reform is a complicated process which is unlikely to move forward presently.

But that is to miss the point altogether. It was not about a permanent seat at the UNSC. The Government of India and most Indian analysts know that an endorsement by Mr Obama is not enough to secure India a place at the table. Today, neither India nor the United States, even together, can

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ensure the required two-thirds majority in the General Assembly and an unanimous agreement among all the existing permanent members.

So what was the significance of the announcement? It was simply something that the Indians wanted to hear from Mr Obama. Ever since he was elected president, his commitment to take forward the India-US relationship, a legacy of his predecessors Bill Clinton and George W Bush, has been doubted in India. Mr Obama's pre-election proposal for a special envoy on Kashmir, his setting of an early date for US troops to leave Afghanistan and his espousal at Beijing of a role for China in South Asia had raised substantive question marks about his commitment to the India-US relationship. So this endorsement of India's bid for a UNSC seat was perhaps the best way to reverse that impression. It may be substantively nowhere near the nuclear deal signed under President Bush but Mr Obama has attempted symbolism of a similar scale with this declaration. Going by the exuberant reactions in the Indian media, it seems he has succeeded.

Notwithstanding the public posturing by the Indian government and many analysts, is India really desperate for a permanent UNSC seat? The answer came earlier this year from India's former foreign secretary, Shyam Saran wherein he christened India a "premature power".

India's relative power globally has outstripped the indices of personal and social well-being, unlike in the established industrialised powers, where they have historically moved in sync. We will need to overcome the ambivalence this creates and embrace a more proactive regional and global role in line with our national power. A seat at the high table should be sought not as an end in itself but as an opportunity to negotiate arrangements conducive to our economic and social development, and the overall welfare of our people. That should be for our agenda for the next decade.

In other words, a permanent seat in the UNSC will force India to make tough calls on global issues which is likely to place New Delhi in a difficult position vis-à-vis many other countries. India is currently not at that stage of social and economic development where it can afford

to antagonise other countries by taking positions over issues which are not directly of its concern.

India's decision to vote against Iran at the IAEA in 2009, which caused so much anguish to India and hurt India-Iran relations, was a one-off matter. But as a permanent member of the UNSC, India will have to make such binary choices with greater regularity. The potential pitfalls of sitting at that high table now far outweigh the advantages of seeking that seat as an end in itself. The current stint as a non-permanent member of the UNSC is going to be instructive for India while firming up its decision to push harder for a permanent seat.

As a permanent member of the UNSC, India will have to make binary choices with greater regularity.

In any case, the United Nations is an organisation of a bygone era that holds little value in today's age. Its importance and impact will decrease further in coming years. What India needs today—and for the next decade, as Shyam Saran suggests—is more economic and social development, and that will come from India's active role in forums like the G-20 and from other bilateral arrangements. Rather than fritter away its energies on archaic institutions like the UNSC, India must focus on faster economic growth, equitable development and robust internal security for the next decade.

Declaring support for India's candidature as a permanent member of the UNSC was a low-hanging fruit that President Obama plucked to redeem his own image in India. It is not going to propel India into the permanent membership of the UNSC. Fortunately so, for the permanent membership of that dysfunctional body is merely a symbolic crown—a crown of thorns—that India can afford to do well without. ■

Heeding Irom Sharmila's argument

The case for careful withdrawal of the AFSPA



Image: PTI (Base Image)

**BIBHU PRASAD
ROUTRAY**

It's been ten years since Irom Chanu Sharmila started her fast-unto-death. With no exceptions, hers would qualify to be the longest in the history of independent India. Liquid feeding through a tube attached to her nostrils keeps the 38-year old alive, although it is said to have weakened the resolve of the diminishing tribe of people who believe in peaceful modes of protest. The State has been accused of being inconsiderate and uncaring towards peaceful and Gandhian modes of protests. In reality, however, Ms Sharmila's plea is caught in the gridlock between a seemingly accommodative political India and the obduracy of its armed forces.

It all started on November 2nd, 2000, the day paramilitary Assam Rifles personnel opened fire in panic after a blast went off at Malom, a small town about 15 km from Imphal, Manipur's capital. Ten civilians waiting under a bus shed were killed and many others injured. Ms Sharmila, working as a volunteer for a human rights organisation, decided to go on a fast in protest the next day. Her demand was simple—withdrawal of the Armed Forces Special Powers Act (AFSPA), which she, like many in her State, terms as draconian as it provides army personnel right to shoot and kill and get away without any punitive action. Her stand is supported by fact. The inquiry into the Malom incident has not ended till

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date. Fixing responsibility comes much later.

The AFSPA, promulgated to contain insurgency in neighbouring Nagaland in 1958 and introduced into Manipur in 1980, continues to be blamed for a number of killings of militants, former militants as well as civilians.

Interestingly, among the people who underline the need to make AFSPA more humane are Prime Minister Manmohan Singh and Home Minister P Chidambaram. In 2004, shortly after the infamous Thangjam Manorama Devi episode—in which a woman militant cadre was allegedly raped and killed by the Assam Rifles personnel after being picked up from her residence in the outskirts of Imphal sending Manipur to a state of turmoil—the prime minister had assured the people of Manipur of efforts to make the Act humane. Such assurances have been periodically made since then. Speaking in April 2010, Mr Chidambaram indicated that he too is in favour of replacing the AFSPA with a humane act. The inquiry into Manorama Devi killing too hasn't concluded.

In 2004, New Delhi set up a committee under Justice B P Jeevan Reddy to review AFSPA. Over the next two years, the committee held intensive consultations with a wide spectrum of people and submitted its report to the government. Its recommendations have not been made officially public, but its contents are freely available. The committee had recommended, "The Act, for whatever reason, has become a symbol of oppression, an object of hate and an instrument of discrimination and high-handedness. AFSPA should be repealed." The committee also said that instead of the AFSPA, the challenges posed by insurgency and terrorism could be dealt by making a few changes to the Unlawful Activities (Prevention) Act, 1967.

The recommendations were subsequently examined by the second Administrative Reforms Commission, which submitted its report in 2007. The commission too observed that "the repeal of the AFPSA would remove the feeling of discrimination and alienation among the people of the northeastern states." However, the decision is pending before the Cabinet, which continues to procrastinate, for reasons which are obvious.

The Indian Army—Assam Rifles consists of army personnel on loan to this para-military organisation—remains fiercely opposed to any tinkering with the Act. The Ministry of Defence maintains that AFSPA is an enabling legislation and is a mandatory pre-requisite for the armed forces to carry out internal security duties. In Manipur, where the Army, not the police, does bulk of the counter-insurgency operations, no one can expect to antagonise the men in olive green. Moreover, toning down AFSPA would also have its impact in Jammu & Kashmir, where too the

Act is in operation. Withdrawing AFSPA is too much of a risk for the government which is critically unsure of its intentions and achievements in conflict theatres.

At one level, making the AFSPA the villain is unjustified. The Supreme Court in its verdict in the *Naga People's Movement of Human Rights (NPMHR) vs. Union of India*, 1997 case underlined the sanctity of the Act. Indeed, the Manipur Police—which does not enjoy the protection under the AFSPA for its activities—too has shot and killed with some impunity. Most recently in July 2009, Manipur police commandos were photographed accompanying and then killing a former militant in an Imphal market, an episode that led to prolonged agitation. Educational institutions shut down for more than six months before an agreement between the state government and the agitating groups restored normalcy. Seven of the nine accused policemen were arrested, suspended, but subsequently were granted bail.

The Manipur police must take a lead role in counter-insurgency duties.

At the other level, it is difficult to understand how a phased withdrawal of AFSPA and consequent non-functioning of the army, would augment insurgent capacities in Manipur. The Manipur government, responding to popular demands, had thrown out AFSPA from seven assembly segments in Imphal West and Imphal East districts in 2004, much to the displeasure of the Army. Since then, Army has refused to operate in these areas. But even then, these areas have not really degenerated into becoming hubs of insurgency.

The security situation in Manipur, often judged on the basis of insurgency related fatalities, has certainly improved in 2010. Compared to 2008 and 2009 when 485 and 416 fatalities were reported in the state, Manipur recorded only 130 fatalities this year (as of mid-November). This throws up an opportunity to embark upon a risky, yet much needed task of assigning Manipur police the lead role in counter-insurgency duties. It also opens up the possibility of withdrawing AFSPA from few other areas in the state, where the army's role can be tactically downgraded. Reassigning primacy to the army and bringing back the AFSPA, in case the situation worsens, would not be too difficult a task. Opportunities certainly exist to make a new beginning for the state, instead of condemning it to hopelessness in perpetuity. ■

geoeconomics

Engaging the East

Scaling up economic diplomacy
in the Asia-Pacific

MUKUL G ASHER

The recent months have witnessed energetic economic diplomacy initiatives by India in the Asia-Pacific region. These initiatives should aim to expand India's economic and strategic space, while constructively furthering structures of Asia-Pacific integration.

The Prime Minister's visit to Japan, Malaysia, and Vietnam last month represents the most recent and visible aspect of such initiatives. But there have been several others.

Japan

India and Japan have concluded negotiations on a Comprehensive Economic Partnership Agreement (CEPA). This will deepen India's bilateral economic and strategic partnership with arguably its most crucial economic partner in Asia. The planned annual ministerial-level economic dialogue can reduce information and perception gaps, and will facilitate mutually beneficial measures to take advantage of demographic and other complementarities between the two countries. Strategic understanding on maritime security, vital for both countries, can be advanced in conjunction with other Asian-Pacific countries such as Indonesia, Australia, Vietnam, Malaysia, and Singapore.

Japan has considerable expertise in many knowledge areas of crucial importance to India, including energy efficiency, civilian nuclear technology,

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space, urban management, recycling of domestic and industrial waste, railways and urban agriculture. Generation, application, and diffusion of knowledge is vital for India to achieve sustained high growth for a long period, and move from its current lower middle income to an upper middle income status.

An India-US higher education summit between and the 21st century Knowledge Initiative were announced during President Obama's visit to India. Similar initiatives between India and Japan merit serious consideration.

Malaysia

India and Malaysia have completed negotiations on the Comprehensive Economic Co-operation Agreement (CECA) to transform the bilateral engagement. This agreement, unlike the India-ASEAN Preferential Trade Agreement (PTA), envisages a multifaceted partnership involving investments, services, higher education and talent flows. The CECA will be signed on January 31, 2011 and will come into force by July 1, 2011. Emphasis on developing knowledge-based economy provides a common ground for the two countries to be innovative in the partnership.

Malaysian prime minister Najib Tun Abdul Razak's "One Malaysia" concept, which aims to improve socio-economic status of more than two million Malaysians of Indian origin, has set a very positive atmosphere for CECA. Malaysia has recognised that unless the talents of all ethnic groups of the country are developed and utilised, it will remain in the middle income trap, and will not be able to restructure its economy. It is therefore refining its affirmative action programmes to give much greater weight to merit; and to more rigorously evaluate existing design and implementation of such programs. This has important lessons for similar programs in India.

As an export dependent economy, Malaysia also needs to seek large markets abroad to diversify its global risk, and retain a degree of policy autonomy. India's international trade in goods and services is expected to be about \$700 billion in 2010-2011, and is set to double in the next several years. Malaysia's international trade was \$336.5 billion in 2009. Exports of both countries are however heavily skewed toward intermediate inputs (62 percent for India and 56 percent for Malaysia). CECA should aim to redress this imbalance.

ASEAN

At the East Asian Summit in Hanoi, Prime Minister Manmohan Singh stressed the need for agreement

on services and investments; and announced visa-on-arrival facilities for nationals of Cambodia, Vietnam, Philippines, and Laos. The merchandise trade based PTA between India and the Association of Southeast Nations (ASEAN) is heavily weighted in favour of the latter. The services and investments agreement will signal ASEAN's willingness to substantively engage India and diversify global economic and strategic risks.

Dr Singh stressed connectivity, both physical and digital—India offered 100 IT scholarships to each of the ASEAN countries over the next five years—and co-operation in science and technology, including in space. Heads of space agencies of India and ASEAN should meet regularly to monitor progress of the proposed joint projects.

New Delhi must stress balanced benefits and respect for India's interests.

Indonesia

The invitation to Bambang Susilo Yudhoyono, Indonesia's president, to be the chief guest on India's forthcoming Republic day parade can help deepen India's relationship with a very important country in India's near neighbourhood. Indonesia, a moderate and pluralistic country, has many complementarities with India. Its democratic polity and decentralisation initiatives are similar to those of India. Indonesia's national interest arguably lies in expanding its economic and diplomatic profile beyond ASEAN.

The size and projected growth of India's economy, and their common G20 membership provide Indonesia with a good opportunity to diversify its global risk and raise its profile in Asia. India will also benefit from complementarities in resources and Indonesia's experience in improving its human development indicators.

Regular high level meetings among economic, science and technology, and education ministers, as well closer cooperation on maritime security issues, particularly relating to Malacca Straits and the Indian Ocean, will benefit both sides. While Atlantic and Pacific Ocean rims have developed deeper linkages, the time has

come to deepen linkages along the Indian Ocean rim.

The proposal to negotiate an economic agreement with Indonesia therefore has the potential to advance Asian economic cooperation, while expanding economic and strategic space for both countries.

South Korea

India is also engaging with South Korea on several areas including in civilian nuclear technology, and investments. South Korean society is ageing even more rapidly than Japan's. So taking advantage of demographic complementarities should be an integral part of the agenda. This will be facilitated by closer interaction in higher education and in science and technology.

A joint feasibility study of the bilateral free trade agreement between India and Australia has recommended a comprehensive economic agreement which covers not just goods, but also services and investment. As a part of services liberalisation, movement of natural persons could also be facilitated. These recommendations have been endorsed by the two countries, but formal negotiations have not yet commenced.

Australia & New Zealand

India is Australia's fastest-growing major two-way trading partner, and there are many complementarities between the two countries which if harnessed, could provide substantial mutual gains. Australia, however, would need to address its poor public image in India, not least due to

repeated attacks on Indians in Australian cities.

India's ongoing negotiations with New Zealand on economic agreement should also emphasise connectivity, but with a focus on movement of natural persons; and on co-operation in agriculture. India must seek respect for its core interests from New Zealand, particularly in our neighbourhood, and on maritime security. Deepening and strengthening of the Indian diaspora in New Zealand will have mutual benefits for both the countries.

As India's new initiatives move forward and are progressively refined, New Delhi should focus on how these initiatives can help to expand its economic and strategic space. India has been generous in the early stages of its Look East Policy, but the time has come for firmer approaches stressing balanced benefits and respect for India's interests. India should therefore establish mechanisms and institutional structures to monitor these initiatives. This will ensure that their implementation integrity is high, and that its core interests are respected by its partners.

The Indian policymakers and businesses should recognise that India's increased integration and acceptance globally, including within Asia, is due to the perception that as knowledge intensity grows, so will India's advantage. But this advantage is not automatic. Progressing towards a knowledge-based economy by laying the requisite institutional, physical and digital connectivity and better governance foundations is, therefore, a national imperative. ■

Why the Right must embrace Ambedkar. Continued from Page 9

is abundantly clear the Indian Right today is a political movement bereft of a sound ideology—rather, it has lurched from one crisis to another while offering a smorgasbord of ideas from Gandhian socialism to a quasi-religious agenda. It is here that Ambedkar's staunch constitutionalism, his rejection of politics of victimhood and grievances, and his views of economic freedom become particularly relevant to the Indian Right.

The Indian Right must look beyond a tainted political Hindutva of the 1990s. Ambedkarite constitutionalism can be an effective antidote to the statist policies of the Leftist ideologues and to the dynastic politics of the Left-leaning Congress. The Indian Right must recognise Ambedkar as the symbol of modern day dharma and embrace constitutionalism as its moral and ideological compass. ■

How central banks make decisions?

Federal Reserve has come under scathing criticism after its second round of quantitative easing. Fed members have explained their decision in various forums. This entire decision making process is complex and done under uncertain times. JAN QVIGSTAD of Norges Bank explains the nuances involved in decision making at central banks in a speech (On making good decisions, 9 Nov 2010).

How do central banks make decisions under uncertainty? First, they try and have as much information as possible on the economic environment and build possible scenarios and make decisions on the most likely scenario. Second, they simply do what others have done. Like in this crisis, we saw central banks cutting policy rates together. However, aping others does not work all the time as economic situation is different. He points to examples from Norway's history when they copied UK's devaluation in 1931 and 1949. It worked in 1931, but failed in 1949.

Qvigstad points that committees help make better decisions compared to individuals. This is shown by both general research and specific research on monetary policy committees (MPC) in central banking. However again groups are no guarantees for good decisions as there are chances that independent thinking gets lost in groups. The members may simply base their analysis based on what others have been saying.

Overall, decision making in central banks is done in a highly difficult environment and current economic uncertainty is only adding to the complexity.

Understanding the issue of Currency Wars

WILLIAM CLINE and JOHN WILLIAMSON have a nice paper on the topic (Currency Wars? Peterson Brief 10-26). The authors base their calculation on their concept of fundamental equilibrium exchange rate (FEER). A fundamental equilibrium exchange rate (FEER) is defined as an exchange rate that is expected to be indefinitely sustainable on the basis of existing policies. They first calculate what FEER should be and compare it with what it actually is. Based on this, much like the Big Mac index, they calculate the exchange rate misalignment.

The authors then plot the countries on the basis of FEER and intervention:

- There are countries that have intervened to prevent appreciation but FEER shows undervalued currency – China, Hong Kong, Malaysia, Singapore, Taiwan etc. The intervention is unjustifiable.
- There are countries that have intervened to prevent appreciation but FEER shows currency in equilibrium – Argentina, Indonesia, Korea etc. Again, intervention is unjustifiable.
- There are countries that have intervened to prevent appreciation but FEER shows currency overvalued- India, Japan, Brazil etc. Here, intervention is justifiable.
- Then you have countries whose currency is in equilibrium and overvalued but have not intervened – Euro-Area, Canada, Mexico, US, UK, NZ, Australia etc (mainly developed economies who have preferred not to intervene so far).

The authors then take the analysis further and use James Meade analysis and classify countries on the basis of whether they need internal balance or excess supply. Most advanced economies are suffering from excess supply and need more demand whereas emerging economies need to balance internally. As China is a country with undervalued exchange rates and also needs internal balance, it can contribute to world economy by letting its currency appreciate.

Was the Fed completely clueless in Great Depression?

Milton Friedman famously said that Fed created Great Depression. If Fed had eased around that time, the depression could have been averted. Or it would not have been as severe as it finally became.

MARK CARLSON, KRIS JAMES MITCHENER and GARY RICHARDSON have written a superb paper (Arresting Banking Panics: Fed Liquidity Provision and the Forgotten Panic of 1929) which shows that the story is not fully true. They point to an event study around April 1929 just before the beginning of the great depression. State of Florida is known for its oranges and around 1929, the crop was impacted because of fruit fly infestation. As a result, a large percentage of orange crops were destroyed and the infection threatened to spread to other regions as well. The state

government quarantined the crop. Congress also thought of compensating the farmers but did not do anything.

This led to concerns over the banking system. As all banks were highly exposed to orange farmers, the loan book started looking worrisome. On realising this, depositors started rushing to their banks to withdraw deposits. This led to panic and a bank run. Banks were squeezed for liquidity. There are two issues here. First, the crisis moved from real economy to banks. Second, the insolvency of banks resulted into a liquidity crisis as well. So, unlike the current crisis, the flow was opposite. In the current crisis, crisis moved from finance to real; and liquidity crunch led to an insolvency crunch.

In the crisis, the role of Atlanta Fed was seen as critical. It not just sensed the crisis but acted forcefully to reduce the panic. It shipped millions of dollars to prevent panic. The authors add that Atlanta Fed intervention stands out for two reasons. First, it suggests that prior to 1930, the Federal Reserve had the knowledge and experience to calm anxious depositors and bankers during a panic. Federal Reserve officials demonstrated that they could effectively leverage their discount window lending capability with public announcements. This challenge may have provided a further impetus for the strengthening of the Board of Governors during the financial reform acts of the 1930s.

Second, Florida banking panic illustrates how an insolvency shock (in this case the potential losses stemming from the destruction of the citrus crop) can induce runs on banks and a precipitate a liquidity crisis.

This exciting study shows that the Regional Feds were better placed to fight crisis in their own regions. It also shows Monetary policy is helpful in reducing liquidity panics like Atlanta Fed showed in 1929 and Fed has shown in this crisis. It was able to prevent banks from falling. But if the crisis worsens and spreads, monetary policy usefulness is limited. Once a highly leveraged economy is in a liquidity trap, just pumping in money does not help. Monetary policy has many options after rates fall to zero levels but are unlikely to be very effective.

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defence policy

A case for co-operation

Why India should sign defence interoperability agreements with the United States



Photo: US Air Force

K SUBRAHMANYAM

Media reports have suggested that the United States and India plan to establish a bilateral technical group for further consultations on the issue of surmounting the difficulties in India's reservations to accede to the Communication Interoperability and Security Memorandum of Agreement (CISMOA) and the Logistics Support Agreement (LSA), which will enable India to get cutting-edge technologies in defence equipment to procure from the United States. This is be a very welcome development.

The Ministry of Defence and the Air and Naval Headquarters are reported to have argued that accession to these two agreements is viewed with reservations by friendly defence suppliers like Russia. They may also involve India in commitments which may not necessarily be in India's national interest. Russian officials have been said to argue that they have borne in mind India's sensitivities and concerns by not supplying defence equipment to Pakistan and therefore, India should bear in mind similar Russian sensitivities.

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on the issue. It is not clear at what level such Russian reservations were expressed. The forthcoming visit of President Dmitri Medvedev should provide a suitable opportunity to clear any misunderstanding on the issue.

All defence agreements are subject to supreme considerations of national sovereignty and national security interests. Though Turkey and Italy are founding members of NATO, Turkey refused to allow US troops to pass through its territory during the attack on Iraq in 2003. Italy similarly refused permission to the United States to use its bases to bomb Libya in 1986. In international diplomacy it is taken for granted that national sovereignty supersedes all bilateral and multilateral agreements. Therefore signing the LSA would not bind India to act against its own perception of national interest. The LSA is only an enabling agreement subject to India's decision in each case. There can be no objection to signing a similar LSA agreement with Russia too. Nor can there be any objection to signing a similar interoperability agreement (like CISMOA) with Russia with respect to the equipment procured from them.

The fact remains that at present, the United States is operating in South, West and Southeast Asia and the Indian Ocean. The extent of interoperability is a function of the intensity of operations by the concerned power in our region. A second consideration is the issue of a common language for interoperability communication. Military officers in India and the United States share a common language, English; only a small number of Indian officers can speak Russian.

Surely no Russian official of sufficiently seniority could have seriously cited their not selling weapons to Pakistan as an example of Russia exhibiting appropriate concern to Indian sensitivities. It is obviously a decision determined by Russian national security interests. It is not Russia's national security interests to arm Pakistan, which provides safe haven to the Chechen terrorists. At present India gets the bulk of its supply of armour from Russia and is likely to do so in future. If Pakistan was supplied the same armour by Russia, India would obviously look for technologically superior equipment and Russia will lose its larger arms market in India.

Therefore accession to CISMOA and LSA will have to be determined on the basis of an objective cost-benefit analysis with the Indian national interest being the sole determining criterion. The reservations reported to have been advanced by the Ministry of Defence and Naval and Air Headquarters do not stand rigorous scrutiny.

Unfortunately there is still a strong residuum of

Cold War and its derivative Non-Alignment mindsets in the world including among the politico-military establishments of India, Russia and the United States. During the Cold War era when India signed the Indo-Soviet Peace and Friendship Treaty as an abundant precaution to provide deterrence against a possible Pakistan-China and US adventurism at the time of Bangladesh crisis, US officials asserted India had abandoned its non-alignment and joined the Soviet bloc. India offered to sign an identical Peace and Friendship Treaty with US. There used to be wild and irresponsible writings in the US and Western media that India had Soviet advisers in its armed forces and India allowed Vishakapatnam and Andamans to be used as Soviet bases. Even Indian politicians used to talk about the need for India to practice 'genuine non-alignment.' India's principled stand on the Khmer Rouge issue and on Afghanistan were also subjected to severe criticism. But Indira Gandhi, unmindful of such criticism, pursued Indian national security interests single-mindedly.

There can be no objections to signing inter-operability and logistics support agreements with Russia as with the United States.

Part of our problem arises because, for reasons totally incomprehensible, successive Indian Governments have not encouraged writing of current history and many politicians and officials of today have inadequate understanding of the radical changes that have come about as a result of the end of the Cold War and globalisation process. For instance, while there is a very widely held impression even among our ministers and senior officials that India has to maintain a posture of non-alignment between US and China.

They will find it difficult to explain the latest Chinese offer to invest \$500 billion of its sovereign wealth funds in development of US infrastructure to carry out job creation in US provided the conditions were right. Beijing already has and is prepared to expand

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foreign policy

Ranking bilateral relationships

A multi-dimensional Bilateral Relationship Index would place the United States at the top

SANJAYA BARU

Relations between nations are shaped by a complex interplay of a variety of factors—historical, geographic, political, economic, cultural, strategic and so on. Governments operate within given circumstances and it takes a lot of political energy on the part of any head of government to alter the nature of a bilateral relationship based purely on government-to-government interaction and relations.

Indeed, as Prime Minister Manmohan Singh told a meeting of the US-India Business Council in November 2009, “In today’s economically integrated world, economic relationships are the bedrock on which social, cultural and political relationships are built. A strategic relationship that is not underpinned by a strong economic relationship is unlikely to prosper. On the other hand, a web of economic relationships intensifies both business-to-business and people-to-people contacts, promoting a deeper and better understanding between countries. That is the kind of relationship we wish to see with this great country, the United States.”

The bilateral relationship between countries, that is the “country-to-country” (C2C) relationship is a sum of three distinct, even if interacting, aspects of such bilateral relations. These three are: people-to-people (P2P), business-to-business (B2B) and government-to-government (G2G). The equation can be stated simply as $P2P+B2B+G2G = C2C$.

It is, in fact, possible to arrive at a quantitative guesstimate of the intensity and importance of the bilateral relationship between various countries based on this simple formula. It is possible to undertake a more sophisticated and

Sanjaya Baru is editor of *Business Standard*. This article was written before President Obama's address to the Indian parliament. Copyright & Courtesy: *Business Standard*

quantitatively satisfying exercise by trying to measure each component in terms of some broad indicators, the way the UNDP's Human Development Report estimates the Human Development Index by using proxies for health, education and livelihood status of people.

Thus, the number for P2P can be estimated from information pertaining to tourism data, migrant population, number of front-page stories in print media, or minutes of television time devoted to news from that country, popularity of cuisine and culture, interaction in sports and so on. In a democracy, the media's view of other countries is shaped by all the three variables, that are P, B and G, and the media, in turn, shapes thinking at all three levels.

The B2B variable can be more easily estimated using data relating to trade, investment, movement of professionals and workers, joint ventures and so on. It is more difficult to quantify G2G, but one can use proxies like defence purchases/sales, bilateral summits, trade treaties, cooperation in high-technology and strategic industries.

Obama's decision to lift high-technology export controls is likely to move the US up very quickly on the G2G ranking.

Based on these numbers, a Bilateral Relationship Index (BRI) can be constructed and countries ranked in order of their importance for India. Take 10 countries that figure prominently in the media, and see how they rank on a 1 to 5 scale of importance. In P2P rankings, the United States, Britain and Pakistan would figure fairly high for different reasons. The P2P interactions between India and China, Russia, Germany and even Japan would be much lower.

In the B2B ranking, the United States would now be at the top, along with countries like Britain, France and Germany. China, of course, does more trade with India than most but it would figure lower in ranking because of the structure of trade, and the limited extent of real B2B partnership. Japan lags behind only because it has been a latecomer and has been a hesitant investor till recently. However, it is easy to see both China and Japan improving their ranking on the B2B scale.

In G2G, Russia still remains at the top but with the growing strategic engagement and increasing defence cooperation between India and the United States, and now with the decision of the Obama administration to lift high-technology export controls, the United States is likely to move up very quickly on the G2G ranking. Indeed, 10 years ago the G2G score for the United States would have been a lowly 2 or even 1, against the backdrop of post-Pokhran-II sanctions imposed against India.

It is a testimony to the fundamental change in the relationship, first initiated by Prime Minister Atal Behari Vajpayee and President Bill Clinton and then accelerated by the strategic partnership launched by Prime Minister Manmohan Singh and President George Bush, that the G2G score for India and the United States will undoubtedly go up. But whether it will be stuck at 4 or go all the way up to 5 will depend on the level of "trust" that President Barack Obama is able to inject into the G2G relationship.

President Obama started off brilliantly with a well-crafted letter written to Prime Minister Singh in September 2008, even when he was on his campaign trail, wherein he said: "I would like to see US-India relations grow across the board to reflect our shared interests, shared values, shared sense of threats and ever-burgeoning ties between our two economies and societies." But through his first year in office, President Obama did and said things that diminished the trust quotient.

More recently, President Obama has been trying to retrieve lost ground and take the relationship back to where his predecessor had left it. If he can convince Prime Minister Singh that he means what he says now, unlike when he wrote that letter in 2008, his visit can be declared a success. Winning the trust of India's Parliament, when he addresses it today, the way Dr Singh won over the US Congress in July 2005 (with 35 interruptions of applause in a 39-minute speech), is the key to getting the G2G number to 5! ■

BILATERAL RELATIONSHIP INDEX (BRI)

Country	P2P	B2B	G2G	C2C
United States	5	4	3	12
China	2	3	2	7
Russia	2	2	4	8
Britain	4	4	3	11
France	3	4	3	10
Germany	2	4	3	9
Japan	3	3	3	9
South Africa	2	3	3	8
Pakistan	4	1	1	6

Note: The scale for each component is 1 to 5, so the highest value that can be reached is 15 and the lowest value is 3, ruling out the possibility of zero.

The democratic dividend in counter-insurgency

The Soviets lost in Afghanistan because their system couldn't handle it



Photo: Munir Squires

DHRUVA JAISHANKAR

In a recent interview with the BBC, former Soviet leader Mikhail Gorbachev—an icon of liberal democracy for his introduction of glasnost and perestroika policies in the 1980s—asserted that the United States could not win its current counterinsurgency campaign in Afghanistan. Mr Gorbachev was evidently drawing from his own experiences as leader of a state fighting an insurgency there, a campaign that had lasting impacts on Afghanistan, its region, and the Soviet Union itself. But such comparisons between the Soviet and American experiences in Afghanistan, which unfortunately continue to inform US policy-making, draw lessons that are misleading, if not dangerous.

Many in Washington have concluded that Afghanistan, as the purported ‘Graveyard of Empires’, is simply unconquerable as a result of its physical

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and human terrain, and always will be. However, this conclusion is informed only by the Soviet experience and that of the British in the first Anglo-Afghan War. That the British returned, and that their objective was a buffer zone, are often conveniently forgotten.

Why exactly did the Soviets lose in Afghanistan? Beyond the ‘Graveyard of Empires,’ at least three explanations stand out, each with its own distinct implications. First, many argue that Soviet military failures were largely to blame and if only they had better adapted themselves to fight an insurgency, the outcome would have been in their favour. A second view is that external support—Pakistani sanctuary and training, Saudi funding, and US military support (including, specifically, Stinger missiles)—was the primary cause of the Soviets’ defeat. And finally, some argue based on the archival record that the Soviet withdrawal was the result of a conscious decision by Gorbachev to extract the Soviet army, making it a matter of political will. Taken together, these explanations suggest that the Soviet Union lost primarily for another reason: it was an autocracy.

Conventional wisdom suggests that democracies are at a disadvantage against insurgencies. Democracies prefer the use of firepower over manpower-intensive small wars. The costs of fighting insurgencies, as ascertained by an electorate, outweigh the benefits. Democracies may also be hampered—if justifiably—by human rights concerns and public opinion, which is often against war of any kind. Nevertheless, there is enough about the Soviet experience in Afghanistan to suggest that democracies actually hold the advantage.

To begin with, the Soviet Union suffered from a centralised decision-making system and dysfunctional civil-military dialogue, resulting in a fatal disjuncture between its means and goals in Afghanistan. At a December 9, 1979 meeting, Soviet leader Leonid Brezhnev and his senior advisors decided to intercede in Afghanistan with the narrow objectives of effecting regime change and supporting the Afghan army against rebels. In the lead up to the invasion, Nikolai Ogarkov, the chief of the Soviet general staff and KGB officials in Moscow and Kabul questioned some of the Politburo’s assessments, but their concerns were systematically ignored.

Things only went bad from Moscow’s standpoint in late February 1980. With the Afghan public, even in Kabul, in open revolt of the Soviet occupying force, and the Afghan military performing terribly against rebels, Moscow directed the 40th Army to perform offensive operations against insurgents in the countryside. Yet the

Kremlin did not sanction an increase in troop numbers or develop a new strategy to correspond to the shift in goals. Moscow consistently wanted Afghanistan to be a limited war involving a light footprint. Troop levels never exceeded 120,000, and the name used to describe the force in Afghanistan—“Limited Contingent”—was more appropriate than most such euphemisms.

Second, Soviet Marxist ideology was fundamentally incompatible with Afghan culture and values, in a manner that democracy is not. The rebellion that resulted in Moscow’s intervention in Afghanistan erupted in Herat in March 1979, following the zealous introduction of secular reform programmes by the communist government in Kabul. These included the banning of Islamic lending systems and dowries, and the forcible conscription of soldiers. Also, it was the Soviet disdain for ethnic and religious differences that made them underestimate the motivations of the Afghan mujahideen and also fail to take advantage of the natural cleavages in what proved to be a fractured Afghan resistance movement.

The Soviet Union didn’t have self-correcting mechanisms because it wasn’t accountable to its citizens.

Third, the Soviet approach to dealing with the Afghan insurgency was one-dimensionally militarily focused, reflecting little regard for public welfare. To keep their own casualties low, they relied on air assault operations, which resulted not just in wanton death and displacement, but also destroyed the resource base they were supposed to protect and develop. The Soviets also used chemical weapons, including nerve and blood agents. The results of these strategies were predictably devastating: the standard of living in Afghanistan plummeted, 75 percent of communication lines were destroyed in four years, and the country went from being a net exporter of food to a net importer. In all, 1.3 million Afghans were killed, 5.5 million were made refugees, and another 2 million were displaced internally. While in no way justifiable, the civilian suffering inflicted by US and NATO forces today offers no comparison.

Finally, it was not so much that the Soviets made

operational errors but that their system of governance lacked the benefits of self-correction that liberal, democratic states possess. Soviet military doctrines were inflexible, and easily predictable to insurgents, but they failed to improvise because they were reluctant to disperse authority. The bulk of Soviet soldiers, draftees with no training in mountain warfare, were provided with heavy equipment and inappropriate field gear, but there were few attempts by Moscow to remedy any of this. The Soviet Union's emphasis on programmatic operational procedures and its armed forces' poor tradition of delegating responsibility could serve it well in conventional wars or invasions, but not in prolonged counterinsurgencies. Furthermore, over 60 percent of Soviet troops became seriously ill during their tours in Afghanistan, often from hepatitis or typhoid, due to inadequate sanitation and medical facilities. This was avoidable, worsened morale and only made a manpower-intensive task more difficult.

In large part, the absence of self-correcting mechanisms was due to the lack of public accountability. Four years after the invasion, the official Soviet press had reported only six dead and wounded; in fact, by then, over 6000 Soviet soldiers had died. Contrast all this to

the fundamental reorientation of the American military over the last five years, resulting in no small part from public criticism and intense media scrutiny following failures and casualties in Iraq.

The Soviet Union lost in Afghanistan not despite the fact that it was a military superpower, but because it espoused a set of ideologies and principles— inherent in its social and economic policies and structures at home and abroad—that were ultimately self-defeating.

There are lessons for India here, some of which are obvious: insurgencies cannot be defeated by bullets alone and there are inherent benefits to showing respect for local social and cultural norms. Beyond that, the media and public criticism need not always be considered an inhibiting factor, but rather part of a valuable and necessary feedback loop. Finally, fidelity must be maintained between means and goals, even if the latter shifts over the course of a campaign. This, in turn, requires a healthy civil-military dialogue and appropriate checks and balances within the policy-making structure. All of that may sound simple, but if there is one overall lesson to take from the Soviet experience in Afghanistan it is how easily such seemingly self-evident factors are overlooked. ■

A case for co-operation. Continued from Page 19

further its enormously high stakes in Washington. The two cannot be treated like the Cold War adversaries and a policy of non-alignment will make no sense. The world of 21st century is very different from the world of 20th century.

In other advanced democracies authoritative policy pronouncements and policy documents would inform the political establishments the assessed view about the international situation. In India this does not happen and each ministry and service develops its own assessment without there being a coherent view among all ministries and services. The arguments reported to have been presented by the defence ministry and the services

should have been discussed at the level of the National Security Adviser, the foreign and defence secretaries and the service chiefs and settled. If they are unable to reach a consensus, the National Security Council is the appropriate forum for arriving at a decision.

Unfortunately, our National Security Council system has not yet developed to be the generator of comprehensive assessment of the international situation and its disseminator both within the government and to the country. A coherent view must be developed within the government with full participation of the Ministry of External Affairs and the National Security Adviser before the bilateral technical group is convened. ■

The den in Yemen

Al Qaeda's resurgence on the Arabian peninsula

foreign affairs



Photo: BBC World Service

On October 29th, two packages containing plastic explosives concealed in ink toner cartridges were discovered on cargo planes bound from Yemen to the United States during scheduled stopovers in London and Dubai. Had the packages not been discovered and defused, anti-terrorist agencies predict that the bombs would have most likely exploded over the United States' eastern seaboard. A wing of al-Qaeda, known as "al Qaeda in the Arabian Peninsula" (AQAP) claimed responsibility for the plot. It may be recalled that the group also claimed responsibility for the failed bomb plot of a Delta/Northwest Airlines flight from Amsterdam to Detroit on December 25th, 2009 (the so-called "Christmas Day Plot") and a suicide plot to assassinate the British ambassador to Yemen.

In January 2009, al Qaeda consolidated its Saudi and Yemeni branches in the Peninsula under the leadership of Naser al-Wahishi (alias Abu Basir), a former secretary to Osama bin Laden, who escaped from a Yemeni prison in 2006. Barely two months later, the group announced its arrival with a suicide

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attack in the eastern town of Shibam, which killed four South Korean tourists. In August 2009, AQAP attempted to assassinate Mohammed bin Nayef, Saudi Arabia's internal affairs minister, and member of the Saudi royal family. The consolidation of power under the AQAP umbrella and the leadership of Mr al-Wahishi, Anwar al-Awlaki (a US citizen and al Qaeda's senior recruiter and trainer) and Said Ali al-Shihri (a former Guantanamo detainee, who was active in Afghanistan and Pakistan) gave al-Qaeda renewed focus and potency. By 2010, US State Department officials were terming AQAP as the single-largest threat to the United States, outside Afghanistan-Pakistan.

Yemen must be assisted in both countering AQAP and alleviating its sectarian and tribal pressure points.

Al Qaeda, of course, has had a historical presence in the tribal provinces of Yemen. Osama bin Laden, though born in Riyadh, belongs to a branch of the Kidnah tribe of the Hadhramaut region in eastern Yemen, from where Mr bin Laden's father emigrated. Yemen stands out from the other countries in the Peninsula as the least developed economically, with a high unemployment rate (35 per cent, 2009) and a per capita income roughly one-tenth that of Saudi Arabia's. Its post-colonial history is marred in conflict—inter-tribal confrontations, a *coup d'état*, support to a rebellion in neighboring Oman, and two civil wars. In many ways, Yemen mirrors Pakistan's Khyber-Pakhtunkhwa province, with its rugged, mountainous terrain, general security vacuum, and low levels of economic development. Rather unsurprisingly therefore, Yemen provided conditions ideal for al-Qaeda to promulgate its regional campaign for *jihad*. It served as al-Qaeda's base for the first attack on Western targets in 1992; a bombing of a hotel used by US troops in Aden, which resulted in two civilian deaths. Its next attack in 2000, off the coast of Aden, killed 17 US sailors aboard the USS Cole.

Several factors have contributed to the re-emergence of al-Qaeda in Yemen. Earlier this year, US counter-terrorism operations, though successful, were suspended due to criticism following an errant drone

assault which led to the death of Jabir al-Shabwani, a deputy governor and mediator, in Maarib province. Also, the continued US focus on disrupting al-Qaeda's ability to plan and execute operations from Afghanistan-Pakistan allowed the group's peninsular assets to use the opportunity to quietly regroup and grow in strength in Yemen. Further, Saudi Arabia's own battle against the terrorist group also led to several of its members escaping to Yemen through the country's porous borders with the Kingdom.

Saudi Arabia's initiatives to rehabilitate "enemy combatants" from Guantanamo Bay have also met with limited success, since several of the "rehabilitated" jihadis have rejoined the ranks of AQAP in Yemen instead. One such beneficiary of Saudi Arabia's rehabilitation programme was Jabir Jubran al-Fayfi, who returned to assist AQAP in its jihad and rose in stature in AQAP. He had previously participated in the jihad in Afghanistan and Kashmir. According to *Long War Journal*, it is likely that Mr al-Fayfi fought the Indian army in Kashmir under the banner of the Jaish-e-Mohammed (JeM), a terrorist group linked to Pakistan's Inter-Services Intelligence (ISI).

AQAP today is the single largest al-Qaeda "chapter" in the world. Its efforts at attacking the West have been unsuccessful thus far, but the United States cannot continue to ignore the possibility that such a threat might materialise in the future. But what are Washington's options today, burdened as it is with a weak economy and two hugely unpopular wars? The good news for the United States is despite its complicated relationship with the government in Sana'a, Ali Abdullah Saleh, Yemen's president, both recognises the threat posed by AQAP and desires to deny them ground in his country. The tenuous political and economic environment in the country, however, constrains Yemeni armed forces from being effective against AQAP. Earlier this year, the US Central Command (Centcom) proposed \$1.2 billion in aid to Yemen and the deployment of US advisers in non-combat roles.

However military aid, without an equitable disbursement of non-military aid for economic and societal development will not end Washington's predicament in Yemen. Today, many in the Obama administration complain that aid money provided to combat AQAP has instead been diverted by President Saleh's government to secure its own indispensability. While the Obama administration's concerns are certainly valid, President Saleh can hardly be expected to dedicate

the full strength of his armed forces to countering AQAP at a time when his government faces existential threats from several sectarian and tribal rebellions.

Therefore, Yemen must be assisted in both countering AQAP and alleviating its sectarian and tribal pressure points. To that end, the United States must enlist the region's most powerful actor, Saudi Arabia, which enjoys considerable influence in Yemen's northern tribal regions and in Sana'a, to gradually work towards a ceasefire with tribal rebels, and deny sanctuaries to AQAP in the country. Finally, the US must also revisit

its decision to suspend drone operations in country. Attempts at correlating drone operations in Yemen to the battle for the "hearts and minds" of the Yemenis are misplaced. Among the many factors that rightly or wrongly inflame antipathy towards the United States in the region, drone operations fall very low in the order. However, continued suspension of US drone operations will likely provide AQAP space for strategic planning, recruitment and training, and a base to plan future attacks on Western assets in the region and beyond. And this is something the US and the West can ill-afford. ■

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In Parliament

Judging the Judges

M R MADHAVAN

The current winter session of Parliament may witness a rare event—the impeachment of a sitting judge of a High Court. To date, there has been only one motion for removal of a judge, that of Justice V Ramaswami of the Supreme Court, and the motion failed to carry adequate support. The current case is that of Justice Soumitra Sen of the Calcutta High Court. Another motion—against Chief Justice Dinakaran of Karnataka High Court (now chief justice of Sikkim High Court) is also pending inquiry.

The process for removal of a supreme court or high court judge starts with a motion moved by at least 100 members of Lok Sabha or 50 members of Rajya Sabha. The presiding officer then appoints a three member inquiry committee—a Supreme Court judge, a chief justice of a High Court, and an eminent jurist. If the inquiry committee finds that there is sufficient proof of misbehaviour or incapacity, each House of Parliament may take up the motion. The motion has to be passed by a two-thirds majority in each House (with at least a simple majority of the total strength). Then the President may issue an order for removal. Interestingly, in the Justice Ramaswami case, the Supreme Court held that the judge has the right to appeal to the Supreme Court after the removal order.

There have been moves to change the process. A Bill was introduced in Parliament in 2006—which lapsed in 2009—that sought to establish a National Judicial Commission, which could comprise the Chief Justice of

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India, the two senior-most judges of the Supreme Court, and two Chief Justices of High Courts. It provided for a complaint mechanism, through which any person could file a complaint against a judge. That Bill also provided for minor measures such as issuing advisories and warning, asking the judge to resign, and public or private censure.

Four issues

There are four major conceptual issues related to removal of judges. First, who should judge whether there was an incident of misbehaviour or incapacity. Second, who may start the process of removal. Third, whether minor measures should be imposed. Fourth, should there be provision for an appeal after removal.

Accountability mechanism

There are differing opinions on the process for holding judges accountable. In 1993, the Supreme Court held that the President has to appoint judges based on consultation with the judiciary. In the Justice Ramaswami case, it ruled that judicial conduct should be investigated by a body predominantly composed of the judiciary. In 1997, two resolutions were passed establishing in-house procedures for examining complaints, and adopting a code of values. Again, in 1998, the Supreme Court held that only judges would determine judicial appointments.

The Law Commission (195th report which examined a draft of the Judges Inquiry Bill) stated that oversight of judges should be with a committee composed solely of the serving judiciary. It gave examples of several countries including the United States, the United Kingdom, Canada, Germany and Australia where judicial oversight is controlled by the judiciary.

An expert paper written for the National Advisory Committee differed from this view. This paper suggested a National Judicial Commission composed of members from the legislature, the executive and the judiciary. The recommendations of this Commission would be binding on the President. The paper suggested that the Constitution be amended to incorporate these changes.

The Parliamentary Standing Committee on Law examined the Judges Inquiry Bill, 2006. It said that the “proposed judicially exclusive composition of the National Judicial Council is not in consonance with the principle of accountability”. It suggested that the NJC be expanded to include members representing the legislature and the executive. Alternately, an Empowered Committee be set up to screen complaints before they are investigated by the NJC. The Empowered Committee would have

representatives of the executive, the legislature and the legal profession.

Complaint process

The Judges Inquiry Bill, 2006 had provided for a mechanism by which any person may make a complaint against a judge. There were penalties for frivolous or vexatious complaints. There would be a preliminary investigation followed by an inquiry by the National Judicial Commission (NJC). If the NJC finds that the charges are proved and the judge should be removed from office, it is to make a recommendation to the President. Following this, a motion for removal may be moved in either House of Parliament.

The Standing Committee felt that such a system would subject judges to both genuine and frivolous complaints. It contrasted this with the motion in parliament which requires 100 Lok Sabha MPs or 50 Rajya Sabha MPs. The Committee suggested an Empowered Committee should first screen all such complaints.

Minor measures

The 2006 Bill had provided for “minor measures”, short of removal of the judge. These included censuring the judge, private or public admonishment, removal of work, and asking the judge to voluntarily retire. The Law Commission stated that the NJC should be enabled to take minor measures if the offence did not warrant removal, and pointed out to similar cases in the United States and Canada. The Standing Committee however said that the constitutional validity of this provision should be examined.

The issue here is that of the moral high ground that judges are expected to hold, and whether that comes under doubt if a judge faces these measures. Indeed, in a recent speech Justice A P Shah, former chief justice of the Delhi High Court, said that minor punishment would undermine the status of a judge and the credibility of the entire judicial system.

Appeal after removal

In 1992, the Supreme Court ruled that the Inquiry Committee was only an investigative body, and the question of judicial review would arise only after an impeachment process was passed by Parliament. At that time, the judge could appeal to the Supreme Court on judicial grounds. The Standing Committee that examined

Continued on Page 32

review essay

Rethinking foreign aid

Throwing money at the problem
isn't the solution



Photo: UNDP

ARUNDHATI SAMPATH

“We want Trade, not Aid” declared Ugandan president Yoweri Museveni in an article in the *Wall Street Journal* in 2003, pointing out that rich economies such as the United States and the European Union implement agricultural subsidies that hurt farm-based economies such as those in Africa, which have a comparative advantage in agriculture. On the other hand, they are generous with aid, which “is a recipe for permanent poverty”.

This thinking is echoed in two thought-provoking books, *Dead Aid* by Dambisa Moyo and *The White Man’s Burden* by William Easterly. Ms Moyo is a Zambia-born economist who has worked for the World Bank and Goldman Sachs. Her premise is that aid is not only ineffective, but also responsible for a negative downward spiral in economies that have a large aid component. The inflow of huge amounts of aid is similar to the natural resource curse that plagues much of Africa, in that it supports rent seeking and allows governments to get their hands on ‘free’ money not derived from productive activities. The middle classes have no influence over their governments for there is no dependence on taxes. Thus aid ends up supporting corrupt

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governments, whose misgovernance makes investment unattractive, resulting in the need for more aid.

Moreover, because of the continuous inflow of aid, countries face economic pitfalls such as inflation and reduced export competitiveness. They are not compelled to do any long term economic planning and much of the aid money goes into consumption and not investment. Another charge laid at aid's door is that it stifles entrepreneurship. A striking example is that of the mosquito net entrepreneur who goes out of business because aid agencies distribute malaria nets for free. Ms Moyo also finds it particularly galling that rock stars and celebrities such as Bono end up influencing policy for entire nations while the voices of sensible African policymakers are ignored. Poor Bono does get a lot of flak for his pains.

The White Man's Burden by William Easterly is a more wide-ranging book, addressing not only aid but also other forms of intervention by the West, such as IMF loans for economic development, as well as 'benevolent' military intervention in dysfunctional countries. Based on his long stint in the World Bank, he has come to be sceptical of utopian ideas for "the end of poverty".

Mr Easterly believes that aid is dominated by "planners" who adopt a top down approach from their lofty perches that does not take into account recipient feedback or conditions on the ground. Thus, crucial initiatives such as delivering cheap medicines to the poor are botched due to a bureaucratic planning approach and compounded by lack of accountability. At the other end of the spectrum, effective logistical initiatives such as delivering Harry Potter books to children are undertaken by those he calls "searchers", people who identify demand for a particular good and find a way to satisfy it. Mind you, searchers don't necessarily belong only in the realm of private enterprise. Their approach of identifying customer needs and satisfying these can also be used effectively in the non-profit sector. However, even though Soviet-style five-year planning has been discredited, aid organisations insist on using the planning model for poor countries. They will not let the lack of results deter them

from concocting utopian poverty alleviation plans such as the Millennium Development Goals.

Mr Easterly castigates aid proponents such as Jeffrey Sachs for their belief in the myth of the Big Push—that people are poor because of the poverty trap and need a big push in the form of aid to help them overcome the trap. Poverty is regarded as a technical problem that can be solved with sophisticated expertise and by having a lot of money thrown at it. This approach completely ignores the effects of bad governance, lack of property rights, and historical factors such as colonial exploitation, slave trade or external meddling. Thus huge amounts of money continue to be poured into poor countries with negligible impact.

Apart from aid, Mr Easterly also takes a look at IMF interventions and shock treatments in several markets and analyses what works and what doesn't. The IMF works best when it focuses on short-term loans to countries to help them overcome immediate balance-of-payments problems. Its longer term market interventions and shock treatments have not been as successful. However the top down planner approach is often

used by the IMF to impose free markets in countries that didn't have any. Mr Easterly notes that "free markets work, free market reforms from outside don't". This is because markets are the product of bottom-up local networks, social institutions, custom, law and norms. They emerge organically and "the West cannot design comprehensive reform for poor countries". Similarly, just as planned aid or planned free market reforms by outsiders does not work, neither does externally imposed military intervention.

With so much loaded against aid, what does work?

Ms Moyo's solutions can at first seem a little alarming. She would like the West to cut off aid in the next five years and let Africa stand on its own feet. Instead of aid, African countries should access the bond markets and make it a point to repay the debt, for bond markets, unlike aid donors, are unforgiving of defaulters. She also favours financial innovation such as a combination of micro-lending and initiatives to unlock the value in unproductive

Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa
by Dambisa Moyo,
Farrar, Straus and Giroux,
2009, 208 pages

The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good
by William Easterly,
Penguin,
2006, 448 Pages

assets such as gold or land. However, she does not make a strong case for whether such initiatives can help lift the poor from poverty on a large enough scale.

Outsiders cannot eliminate poverty for entire nations or foster democracy on behalf of other people.

Ms Moyo also advocates a pragmatic, trade-based approach which is being increasingly adopted not by the condescending West but by many emerging economies. Key exhibit: China, which has made substantial investments in Africa and has especially helped build infrastructure such as roads and key railway lines across the continent. China is looking for commodities to power its growth, which Africa has in abundance, and in return is making huge investments and bringing economic development in its wake. To a lesser extent, India, Turkey and other emerging economies are also investing in and trading with Africa.

Ms Moyo believes that in such trade and investment based relationships lies the path for Africa's development. But couldn't this approach engender problems such as uneven trade relationships or natural resource

exploitation by the emerging market partners? Trade partners can also end up supporting strongmen who will give them favourable terms and overlook rampant human rights violations, thus helping sustain dictatorial regimes. Ms Moyo tends to gloss over these potential pitfalls.

Mr Easterly, on the other hand, has no master plan—not surprising in someone who has seen the failure of big, overarching anti-poverty initiatives at first hand. Instead, he advocates narrowly targeted aid designed to solve specific problems by way of constant experimentation. Feedback from intended beneficiaries is important to help discard projects and ideas that do not work, while focusing on those that do. In contrast to grandiose ideas for ending poverty, this approach seems rather timid and anticlimactic. But it can be effective. Mr Easterly cites successes in public health, such as smallpox eradication, or improving school attendance in Kenya by supplying deworming drugs, both of which were targeted initiatives geared towards solving specific problems.

The sobering message is that outsiders cannot eliminate poverty for entire nations or build institutions or foster democracy on behalf of other people. Countries themselves have to keep experimenting to figure out which approaches work for them. For their part, rich donors would do the poor a huge favour by eschewing hubris and accepting that they cannot eradicate poverty by blindly throwing money at it. Free money, say Ms Moyo and Mr Easterly in unison, is a recipe for never-ending economic backwardness. ■

In Parliament. Continued from Page 29

the 2006 Bill differed from this view. It stated that the Constitution provided for the process of removal and any appeal against that would amount to a challenge to the constitutional authority of the President.

The legitimacy of the judiciary stems from the trust it engenders among the public. That requires both independence and accountability. Balancing the two objectives is a delicate task. In the last two decades, the judiciary has moved towards greater independence,

especially with respect to appointment of judges. However, some judges recognise the need for accountability as witnessed by the Delhi High Court's recent judgement that the Supreme Court is covered by the Right to Information Act. The Cabinet has approved the Judges Accountability and Standards Bill but the government has not placed it in the public domain. We hope that the Bill provides for a smooth mechanism that balances the twin objectives of judicial independence and judicial accountability. ■



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Photo: Darwin Bell

